



MINISTRY OF FINANCE



Budget review 2012

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Economic outlook

Economic growth in Finland will slow down sharply

The Budget endorsed by Parliament draws on the economic assumptions presented in the Ministry of Finance's economic forecast published in October, which was appended to the budget proposal. At the time, total output was estimated to grow by 1.8% in 2012. This estimate was revised in December 2011 in the Ministry of Finance's economic bulletin (www.vm.fi), where it was estimated that the outlook had deteriorated significantly. Estimates on fiscal balance in central government finances are also bleaker than in those presented in the Budget.

The economy was growing at a good pace in the early months of 2011 and even in the summer economic growth was still expected to develop favourably throughout the year. However, mounting uncertainty in the late summer, particularly relating to the euro area, was having an almost immediate effect on the real economy. Statistical data on the economy since the early autumn have extensively shown that activity has slackened both in Finland and the rest of Europe. Growth is slowing down outside Europe too.

The economic forecast published in December anticipated the Finnish economy to grow slower than previously projected, around ½% in 2012. Economic growth is based almost solely on domestic demand, as exports will remain sluggish. Inflation is expected to stay in the range of 3% in Finland, which is well above the average inflation for the euro area. However, the level of earnings is predicted to increase faster than inflation. The decrease in the unemployment rate that started in 2010 lost momentum in the autumn. Unemployment is anticipated to start rising marginally in 2012 as labour demand slackens. However, the rise in unemployment will be only moderate, as businesses will use the number of hours worked as a primary means of adjusting labour input. Labour supply will also decline as the population is ageing.

There are potential risks in both directions in the forecast, although negative risks are the predominant ones. The negative risks in the world economy are related mainly to the indebtedness of public finances and financial imbalances, but also to the fragility of private demand and prolonged high unemployment. There is the possibility that the crisis in the euro area countries at the geographical fringe of Europe might ease at a slower pace and impact activities in the whole euro area through financial channels to a greater extent than assumed in the underlying assumptions in the forecast.

Public finances will remain in deficit

Finland's general government finances consist of central government and local government finances as well as social security funds, which also include the employment pension funds that manage statutory employment pension insurance. The deep recession in 2008 and 2009 and the stimulus measures implemented to alleviate it substantially weakened Finland's general government finances, particularly central government finances. In 2010 the general government deficit was 2.8% and debt 48.3% of GDP. General government debt was therefore 14½ percentage points higher than in 2008.

In 2011, the deficit in general government finances is estimated at 1% and in central government finances nearly 4% of GDP. Given that growth prospects have deteriorated, this will have direct repercussions on the fiscal position in general government finances. The economic forecast published in December anticipates that the deficit in general government will sink to 1.4% of GDP in 2012. Central government finances are estimated to show a deficit of 3.8% of GDP. Finland's public debt-to-GDP ratio will increase but will nonetheless remain below the 60% threshold of the Treaty.

Public finances unsustainability a significant problem

Improving the sustainability of public finances will be one of the central tasks of economic policy in the next few years. Through the international financial crisis, the balance of Finland's public finances also deteriorated sharply and prospects for overcoming the problems arising from population ageing weakened. The significance of the sustainability of public finances has been heightened by the exacerbation of euro area countries' debt problems.

Public finances are considered to be on a sustainable basis if the general government debt ratio remains stable over the long term. According to Ministry of Finance sustainability scenarios, the surplus ensuring the sustainability of Finland's general government finances is estimated to be 4% of GDP in 2015. The budgetary position of general government finances would in that case be on a level ensuring sustainability, at which projected trends in expenditure and revenue will not lead to uncontrollable indebtedness.

In examining the sustainability of public finances, the key factor is demographic development. The size of the working age population has started to decline as the baby boomer generation reaches retirement age. The contraction of age groups among people of working age and the continual lengthening of life spans will weaken the old age dependency ratio significantly during the next two decades. The weakening of the dependency ratio will adversely affect public finances in two ways. The contraction of labour will weaken the economy's output potential and thereby growth of the financial base of public finances. Growth of the elderly population, on the other hand, will increase age-related public expenditure, such as expenditure on pensions, long-term care and health care.

The Government Programme objective of tightening fiscal policy will improve the sustainability of public finances, but it will not be sufficient to secure sustainability over the long term. Structural reforms to lengthen working careers, accelerate economic growth and improve the productivity of services will become increasingly significant. As the working age population contracts, it will be important to implement reforms to promote a rise in employment rate in all age groups.

The change in age structure will increase public spending in the coming decades if public service provision is maintained at the current level. To restrain expenditure growth, it will be necessary to critically examine all public spending and improve the efficiency of service production. It will also be necessary to evaluate critically the pension system. Particularly structural reforms aimed at delaying retirement would moderate expenditure growth.

In addition to incentive and income distribution effects, the impact of measures on fairness between generations should also be examined. From a generational perspective, the front-loaded implementation of structural measures and balancing measures would be advantageous, because delaying decisions will increase future adjustment needs and the tax burden on the future working age population.

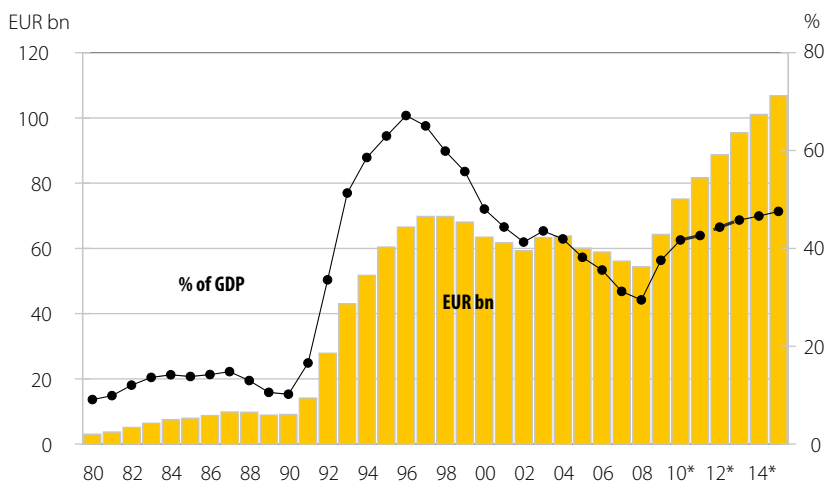
Fiscal policy and sustainability of public finances

The Government's economic policy goal is to strengthen the economy's growth potential in a sustainable way, to raise the employment rate, to bolster household purchasing power and to improve international competitiveness and the framework conditions for industry. For Finland it is important to improve economic competitiveness and to maintain confidence in the capacity of public finances to meet the country's obligations in all situations. A concrete objective is to maintain the credit rating of the Finnish State at its current best possible level.

To safeguard the sustainability of public finances, the Government is committed to achieve a substantial reduction in the central government debt-to-GDP ratio by the end of this parliamentary term. To achieve its goals, the Government aims to achieve balance in central government finances and stronger than predicted economic growth. During the parliamentary term, public finances will be strengthened by means of expenditure and revenue adjustments as well as structural measures. In line with the Government Programme, net annual adjustments to central government expenditure and revenue will total EUR 2.5 billion through to 2015. The adjustments will be divided equally between revenue and expenditure measures.

The Government is committed to implementing further adjustment measures if there are signs that the central government debt-to-GDP ratio is not falling and indications that the central government deficit has settled above 1% of GDP. The need for additional adjustment will be reviewed annually starting from the 2013–2016 decision on spending limits.

Central government debt



Spending rule for the parliamentary term 2012–2015

To ensure a prudent, long-term spending policy that promotes economic stability, the new Government will continue to apply the spending limits procedure, namely a spending rule that steers the development of on-budget expenditure over the full parliamentary term. The prime minister Jyrki Katainen Government's spending rule will generally correspond, with certain changes, to the rule which has been in use since 2004 and which has proved to be effective.

The spending limits procedure sets a maximum level for most, around 80%, of budget expenditure. Expenditure that changes according to cyclical conditions and automatic stabilisers, such as unemployment security expenditure, pay security, housing allowance and the central government contribution to social assistance expenditure, remains outside the central government spending limits. However, expenditure effects generated by changes in the criteria for these items are included within the spending limits. In addition, debt interest payment on central government debt, value-added tax expenditure, financial investment expenditure and expenditure corresponding to technically transmitted payments, for example, also remain outside the spending limits. In contrast with the previous parliamentary term, the central government contribution to the Social Insurance Institution for expenditure arising from the National Pensions Act will be brought within the spending limits system.

The spending limits for parliamentary term 2012–2015 have been set at 2012 prices so that they implement, as agreed in the Government Programme, a EUR 1.216 billion net reduction in spending limits expenditure in 2015 compared with the March 2011 decision on spending limits. From the total spending limits, it has been decided to make an annual provision of EUR 200 million for supplementary budgets. If the level of expenditure of some year after supplementary budgets falls below that specified in the spending limits, the difference, to a maximum of EUR 200 million, may be used for one-off expenditure in the following year without reference to the spending limits.

Balancing measures, but investment in basic social security

To safeguard the sustainability of public finances, the Government will implement expenditure and revenue adjustment measures which amount to EUR 2.5 billion at the 2015 level, in accordance with the Government Programme.

Savings in expenditure within the spending limits totalling EUR 2.15 billion at the 2015 level have been agreed in the Government Programme. Spending cuts amounting to EUR 1.1 billion are scheduled for 2012. The savings are broad-based and directed at, for example, central government transfers to local government, state administration, the defence forces, business subsidies, agriculture and forestry support, and university funding.

The Government Programme also outlined, on the other hand, resources for combating youth and long-term unemployment, improving basic security, developing social and health services, promoting employment and growth, and protecting the environment and nature. Provision has been made for expenditure increases of around EUR 700 million at the 2015 level. Of the increases, around EUR 410 million will be implemented in 2012.

The on-budget adjustment impact of the Government Programme's expenditure savings and increases as well as decreases and increases in taxation will be around EUR ½ billion in 2012, not taking into account adjustments made to earned income taxation as a result of rising earnings levels and inflation nor additional tax revenue sought from the Government's efforts to combat the shadow economy.

In addition, in connection with the framework agreement contracted by the labour market confederations, decisions were made on new measures that will have an effect on on-budget finances (see pg. 13).

Preventing youth and long-term unemployment

The implementation of the social guarantee for young people will begin in 2012 and EUR 55 million has been allocated for this purpose. Of the 2012 funding, EUR 5 million will be allocated to the administrative branch of the Ministry of the Interior, EUR 14 million to the administrative branch of the Ministry of Education and Culture and EUR 36 million to the administrative branch of the Ministry of Employment and the Economy. The guarantee will come into force in full during 2013. The social guarantee will offer each young person under 25 years and recently graduated people under 30 years a job, on-the-job training, a study place or a period in a workshop or rehabilitation within three months of becoming unemployed.

To reduce long-term unemployment, a fixed-term trial pilot programme lasting until the end of this Government's term will be initiated in which, after 12 months' unemployment at the latest, the main responsibility for managing an individual's unemployment support will be transferred to the municipality or municipalities jointly. The employment opportunities of every unemployed person will be charted and progress actively monitored. The 2012 Budget allocates EUR 5 million to this purpose. In addition, the participation of the long-term unemployed in wage-subsidised work, training and other services will be increased, with a supplementary appropriation of EUR 25 million being allocated to this.

Improving basic social security

To improve the position of people living on basic social security, the unemployment security basic allowance and labour market support was raised by EUR 120 per month from 1 January 2012 (including index adjustment). The full payable basic daily allowance and labour market support benefit will rise to EUR 674 per month. Housing allowance income limits will also be raised correspondingly so that individuals receiving labour market support and who live alone will continue to have the right to full housing allowance after labour market support is increased.

The basic benefit of social assistance will be increased by 6%, which means that the the basic benefit of social assistance for individuals living alone would be EUR 461.05 per month. In addition to the above, social assistance for single parents was raised by a further 10% from 1 January 2012, so that the basic benefit for single parents would be 507,16 per month.

The increases in basic social security will result in additional costs to the central government of around EUR 310 million in 2012, taking into account the fact that improvements in unemployment security and housing allowance will result in lower expenditure on last-resort social assistance.

Investing in growth and efforts to combat the shadow economy

The Government will continue the implementation of its fifth programme to combat financial crime and will immediately start work on preparing the sixth programme. A supplementary appropriation totalling EUR 20 million will be invested in efforts to combat the shadow economy. This will be allocated to the administrative branches of the Ministry of Justice, the Ministry of the Interior, the Ministry of Finance, the Ministry of Employment and the Economy, and the Ministry of Social Affairs and Health, because combating the shadow economy requires broad-based cooperation.

The creation of growth, expertise and new innovations will be promoted by allocating EUR 8.5 million to improving research infrastructures and EUR 8.5 million

to boosting the green economy. Appropriations for boosting the green economy will be distributed among the administrative branches of the Ministry of Agriculture and Forestry, the Ministry of Employment and the Economy, and the Ministry of the Environment.

Finnvera Plc's risk-taking capacity will be reinforced. Finnvera plays a key role, particularly in the funding of newly-established and growing businesses. A total of EUR 263 million will be allocated to Finnvera's interest-subsidy loan authorisation. An estimated EUR 33 million in credit loss compensation will be paid to the company.

Shifting the focus of taxation towards indirect taxes

The Government aims, in accordance with its tax policy outline, to strengthen the financial basis for a welfare society and thereby also to secure the long-term sustainability of public finances. As part of the measures aimed at this, the Government will broaden the tax base of central government finances and make a number of changes to tax criteria. The tax revenue forecast which is the basis of the Budget has taken into account the measures, and their revised revenue impacts, outlined in the Government Programme.

The focus of taxation will continue to shift in the coming years from growth-hampering taxation of labour and entrepreneurship towards environmentally- and health-motivated taxation. Value-added tax will be increased by extending the 9% tax rate to cover newspaper and magazine subscriptions. In excise duty taxation, taxation of products harmful to the environment and health will be increased. To mitigate the harm caused by alcohol and tobacco, their taxation will be increased by a total of EUR 168 million. The level of excise duties on sweets, ice cream and soft drinks will be raised by EUR 50 million. In accordance with the Government Programme, the taxation level of transport fuels will be raised in two stages. The first increase of EUR 125 million will be implemented in 2012. In addition, in accordance with a decision of the previous Government, the excise duty on diesel fuel will rise from the beginning of 2012 and at the same time the vehicle motive force tax levied on cars and trucks will be reduced. The car tax scale will be adjusted to reinforce environmental steering.

The Government aims to narrow income differences by, among other things, increasing tax on capital income and taxation of large inheritances, and by decreasing taxation on low incomes. The tax-free limit for dividends distributed by unlisted companies will be lowered. The tax rate on capital income will be increased to 30% and the tax will be made partly progressive. A new threshold will be added to inheritance and gift taxation. Income tax criteria will be adjusted annually so that increases in inflation and earnings do not lead to higher taxation of earned income. In 2012 a 3.3% adjustment will be made to tax criteria. Tax rates applicable to people on basic

social benefits and low income earners will be eased by improving the basic deduction in local taxation and as well as the earned income deduction. To harmonise the tax treatment of rented and owner-occupied housing, the right to deduct interest paid on housing loans will be reduced. The domestic work deduction will be reduced.

To improve framework conditions for business, the corporate income tax will be lowered by 1.5 percentage points to 24.5% (incl. an additional 0.5 p.p. decrease agreed on together with the framework agreement), which will reduce central government corporate income tax receipts by around EUR 216 million. Changes in local government revenue arising from tax criteria adjustments will be compensated in full. Municipalities' share of corporate income tax will be paid at a five percentage points higher rate in 2012 and 2013. In addition, the temporarily higher corporate income tax will be applied to parishes.

Measures related to the framework agreement of the labour market confederations

Since the publication of the budget proposal in November the government reached decisions on measures to support the framework agreement of the labour market confederations. The measures were included in the second amendment to the budget proposal. The purpose of these measures is to boost stability in public finances by improving employment. These measures will impact central government finances by EUR 410 million in 2012.

A compensation of 0.2 percentage points was introduced by easing earned income taxation to alleviate the increase in the earnings-related employment pension contributions of wage earners. This means that tax accrual from earned income and capital income is estimated to be EUR 80 million less than forecast in the budget proposal. Central government will compensate the decrease in earned income taxes in local government deriving from the compensation in the earnings-related employment pension contributions of wage earners by increasing central government transfers for basic public services in local government by EUR 36 million.

The tax rate for corporation taxes will be reduced by 1.5 percentage points, i.e. by 0.5 percentage point in addition to the 1 percentage point mentioned in the budget proposal. Losses in tax accrual resulting from this will be compensated to local government and parishes by raising their corporate tax apportionments. These measures will reduce corporate tax accrual by an estimated EUR 118 million relative to the budget proposal.

In connection with the collective bargaining settlement, central government transfers related to earnings-related daily allowances were increased by EUR 170 million from that proposed in the budget proposal. Of this, EUR 160 million consists of a

central government contribution to the funding of redundancy allowances and EUR 10 million involves changes in conditions related to adjusted un-employment benefits and terms related to working hours limits. Central government transfers for alternation leave compensations were raised by EUR 6 million owing to the cancellation of the amendment to the legislation on alternation leave that was made in connection with the budget proposal.

► Selected monthly¹⁾ benefits in 2012

	2012 eur/mon	2011 eur/mon
from Jan 1, 2012		
FULL NATIONAL PENSION		
- living alone	608.63	586.46
- married or cohabiting	539.85	520.19
QUARANTEED PENSION		
- quaranteed pension	713.73	687.74
CHILD BENEFITS		
1st child	104.19	100.40
2nd child	115.13	110.94
3rd child	146.91	141.56
4th child	168.27	162.15
5th child and each child thereafter	189.63	182.73
- single parent supplement per child	48.55	46.79
SICKNESS INSURANCE DAILY ALLOWANCES		
- minimum level for sickness, maternity, paternity and parental allowances	574.00	553.25
CHILD HOME CARE ALLOWANCE		
- allowance per child	327.46	315.54
- partial child care allowance per child	93.77	90.36
PRIVATE CHILD CARE ALLOWANCE		
- allowance per child	166.71	160.64
BASIC UNEMPLOYMENT SECURITY		
- basic unemployment allowance or labour market subsidy	674.24	553.41
STUDY GRANTS, MAXIMUM AMOUNTS		
Student grant		
<i>University students</i>		
- not living at home, under 18	145.00	145.00
- not living at home, 18+	298.00	298.00
<i>Other students</i>		
- not living at home, under 18	100.00	100.00
- not living at home, 18+	246.00	246.00
Student housing supplement		
- 80% of established housing costs ²⁾	201.60	201.60
State guarantee for study loans		
- University students	300.00	300.00

► Average expenses of selected public services in 2009

	EUR	
EDUCATION AND CULTURE		
- basic education	6915	/pupil
- upper secondary education	6 258	/student
- initial vocational education	10 604	/student
- polytechnic education ¹⁾	7 877	/student
- university education ¹⁾	8 130	/student
- public libraries	2.9	/loan
SOCIAL SERVICES²⁾		
- children's day care	53	/day
- old people's homes	115	/day
HEALTH CARE SERVICES		
Basic health care		
- visit to health centre	72	/visit
- ward treatment	155	/day
- dental care	68	/visit
Special medical treatment		
- somatic special medical treatment	785	/day

1) On the basis of a full-time equivalent student concept in which those who have completed more than 30 credits/year and first-year students are given a coefficient of 1, post-graduate students and those who have completed under 30 credits/year are given a coefficient of 0.5 and absent students a coefficient of 0.

2) Net costs.

Sources: National Board of Education, Ministry of Education and Culture, National Institute for Health and Welfare and Statistics Finland

1) Benefits granted on a daily basis are estimated on a monthly level.

2) The allowance is not granted for the part of the monthly housing cost that exceeds EUR 252.

Income tax scale in 2012*Progressive income tax rates*

Taxable earned income, EUR	Tax at lower limit, EUR	Rate within brackets, %
16 100 – 23 900	8	6.5
23 900 – 39 100	515	17.5
39 100 – 70 300	3 175	21.5
70 300 –	9 883	29.75

- ▶ **Average local government tax and social security contributions amount to 27%, including wage earners employment pension contributions and unemployment insurance contributions**
- ▶ **Tax rate on capital income 30% and on corporate income 24.5%**

¹ The changes in wage earner contributions for 2012:

- employment pension contribution (under 53 years of age) +0.5% points and employment pension contribution (over 53 years of age) +0.6% points.
- medical care contribution +0.03% points.
- daily allowance contribution (wage earners) 0.0 % points and daily allowance contribution (entrepreneurs) +0.04% points
- unemployment insurance contribution 0.0% points

Inheritance tax scale in 2012

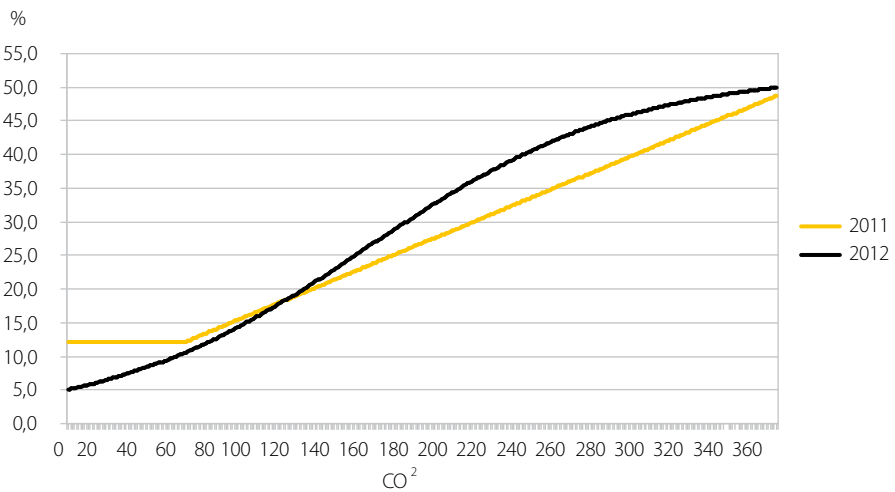
Value of taxable income, EUR	Standard tax payable at lower threshold, EUR	Tax % payable above threshold
20 000 – 40 000	100	7
40 000 – 60 000	2 100	10
60 000 – 200 000	4 700	13
200 000 -	21 700	16

The above scale is applied to Tax Class 1. Changes coming into force in 2012 are in bold type

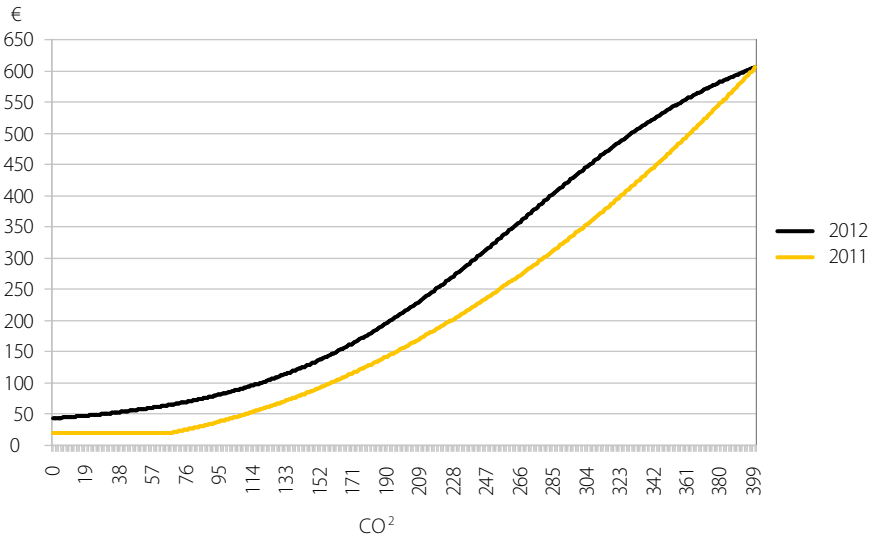
Excise duty rates, in 2011 and 2012

	2011	2012	Tax increase, % %
Beer (medium-strength 4.5 vol%, 0.33 l)	0.39	0.44	15
Cider (4.5 vol% 0.33 l)	0.46	0.52	15
Wines (11 vol%, 0.75 l)	2.12	2.34	10
Fortified wines (21 vol%, 0.75 l)	4.26	4.69	10
Spirits (40 vol%, 0.7 l)	11.03	12.15	10
Average price cigarettes (20)	2.63	2.92	11
Average price rolling tobacco (30g bag)	2.22	2.55	15
Petrol (cents/l)	62.70	65.03	4
Diesel oil (cents/l)	36.40*	46.95	6
Sweets (cents/kg)	75	95	27
Ice cream (cents/l), (0.5 l)	37.5	47.5	27
Soft drinks (cents/l)	7.5	11	47

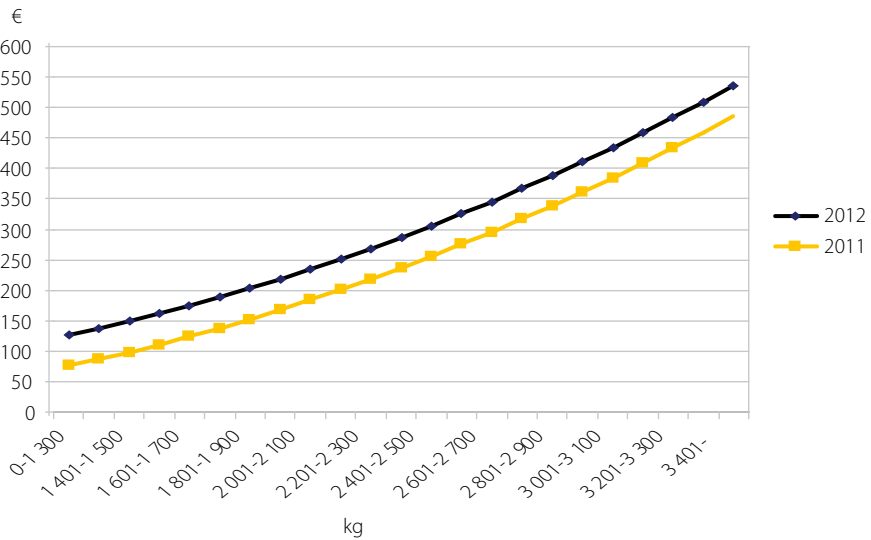
* will increase as previously agreed to 44.30 cents/l, which will be compensated by a cut in the vehicle motive force tax.

Car tax rate on new cars, in 2011 and 2012

Vehicle tax (CO²-based), in 2011 and 2012



Vehicle tax (weight based), in 2011 and 2012



Central government to remain clearly in deficit in 2012

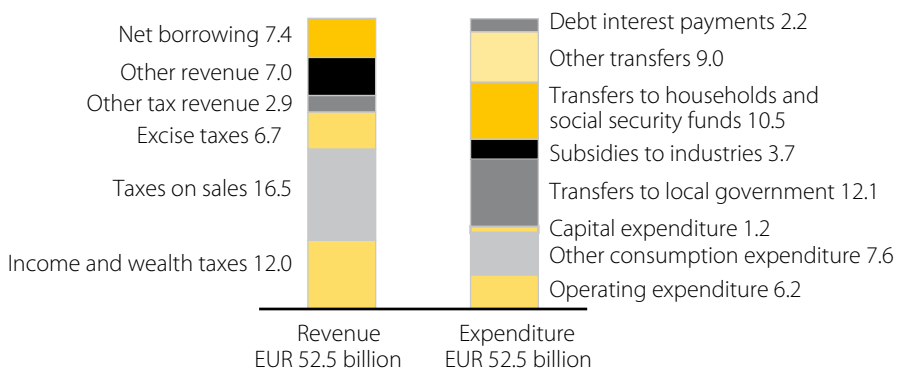
Budget appropriations grow despite savings

The expenditure according to the 2012 Budget is EUR 52.5 billion, i.e. expenditure will grow by around EUR 1 billion from that budgeted for 2011 (incl. fourth supplementary budget). In addition to a change in price level (c. EUR 800 million), this growth is explained by, among other things, a rise in debt interest payments (c. EUR 200 million). Certain automatic factors, such as growth in central government pension expenditure, also increase appropriations. Furthermore, decisions made by the previous Government, such as the renewable energy package and appropriations allocated to transport projects, will increase spending. On the other hand, expenditure savings according to the Government Programme and a decrease in financial investment expenditure will temper expenditure growth.

Administrative branch appropriations will increase around ½% in real terms on the ordinary 2011 Budget but will decrease by 1½ % from the amount budgeted for 2011. Price developments and the Budget's structural changes haven been taken into account.

Expenditure within the 2012 spending limits totals EUR 41,973 million. The parliamentary term spending limits for 2012–2015 have been set such that the 2012 spending limits level is 42,118 million. After the 2012 Budget, a total of EUR 215 million will remain as an unallocated reserve (incl. EUR 200 million supplementary budget reserve).

Central government budget revenue and expenditure in 2012, EUR billion



Source: MoF

Tax revenue will grow 6% due to growth of tax bases and changes in tax criteria

Central government on-budget revenue, excluding net borrowing, is estimated to be EUR 45.2 billion in 2012. Around 85% of revenue consists of taxes and revenue similar to taxes. Despite slowing of economic growth and prevailing uncertainty in the financial markets, growth of employment and domestic demand will raise tax receipts. Tax revenue will also be increased by Government decisions to strengthen central government finances.

Compared with the ordinary 2011 Budget, both tax revenue and ordinary on-budget revenue are expected to grow by around 6%. Compared with the 2011 revenue estimate, increased through supplementary budgets, tax revenue and ordinary revenue are expected to grow by 5%.

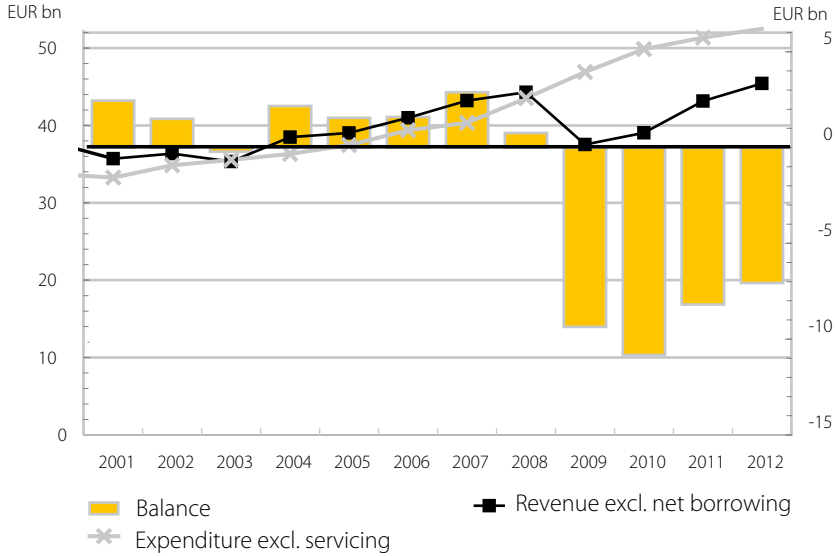
The tax criteria changes increasing central government tax revenue implemented for 2012 will raise EUR 1.1 billion on an annual basis. Tax criteria changes reducing tax revenue will be equivalent to EUR 510 million (incl. changes in tax criteria adopted in connection with the framework agreement), in addition to which central government tax revenue will be reduced (– EUR 300 million) by the adjustment of income tax criteria to compensate for the tightening of taxation cause by inflation and higher earnings, and also by continuing the temporary increase of municipalities' and parishes' share of corporate income tax by five percentage points (– EUR 280 million). The increase in the share of corporate income tax is one half smaller than in the period 2009–2011. In the year that they come into force, the impact of many criteria changes will be smaller owing, among other things, to the delay associated with the payment of taxes. Examined on an annual basis, the new tax criteria changes will increase tax revenue by a net amount of around EUR 40 million. In addition, measures decided by the previous government will have the impact of increasing tax revenue by around EUR 160 million in 2012 (for example, increasing the excise duty on diesel fuel from 1 January 2012).

Central government debt will rise to EUR 89 billion

The central government Budget for 2012 shows a deficit of EUR 7.4 billion, which will be covered by taking additional debt. The 2011 deficit is EUR 8.2 billion (incl. the fourth supplementary budget but excluding use of the cumulative surplus), i.e. the on-budget balance will improve from 2011 by around EUR 0.8 billion. In national accounting terms, the central government deficit for 2012 is expected to be around 3.3% of GDP.

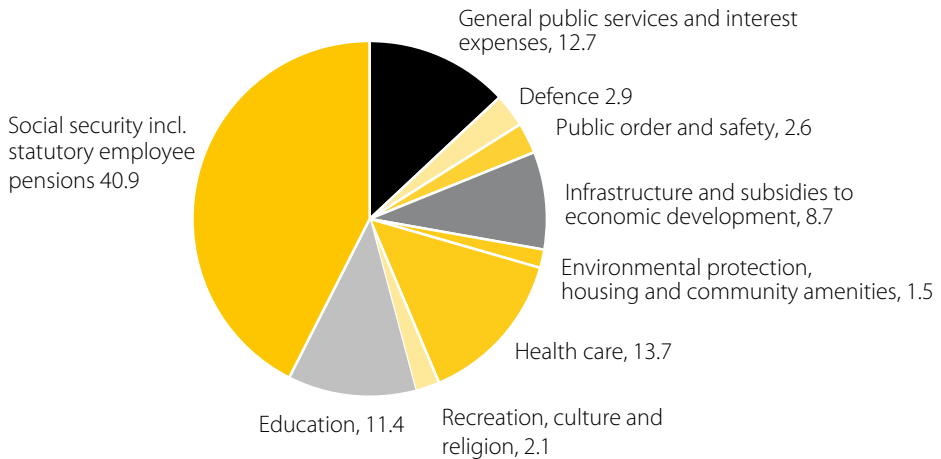
At the end of 2012, central government debt is expected to be around EUR 89 billion. The debt ratio would grow by about two percentage points from 2011.

On-budget revenue, expenditure and balance



What are tax euros spent on?

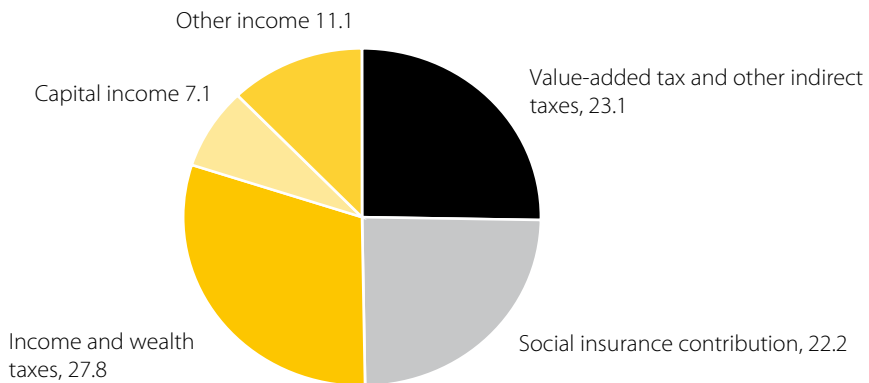
General government expenditure in 2009: EUR 96 bn / 56.3% of GDP (2008: EUR 91 bn / 49.3%)



Source: Statistics Finland, National Accounts

Where tax euros derive from?

General government revenue in 2009: EUR 91 bn / 53.4% of GDP (2008: EUR 99 bn / 53.5%)



Source: Statistics Finland, National Accounts

Central government EU revenue and expenditure in 2010–2012

At central government level, Finland is expected to contribute an estimated EUR 1,909 million to the EU budget and the European Development Fund in 2012. Finland's contributions will grow by EUR 33 million compared with contributions in 2011. Finland's share of the UK's budgetary rebate of around EUR 3.8 billion will be EUR 94 million. At central government level, Finland is expected to receive an estimated EUR 1,223 million from the EU budget in 2012, which is EUR 15 million more than receipts estimated in the 2011 Budget. Structural policy support payable to Finland is expected to grow by around EUR 21 million and agricultural support and rural development support by a total of EUR 9 million compared with 2011.

Flow of contributions between Finland and the EU in 2010-2012 (EUR million)			
	2010 Final	2011 Budget	2012 Budget
CENTRAL GOVERNMENT EXPENDITURE			
On-budget finances			
VAT payment	233	261	252
GNI payment	1,214	1,473	1,504
Finland's share of the UK budgetary rebate	81	88	94
EU PAYMENTS TOTAL	1,528	1,822	1,850
European Development Fund	55	54	59
TOTAL	1,583	1,876	1,909
CENTRAL GOVERNMENT REVENUE			
On-budget finances			
Agricultural support	557	559	551
Rural development support	276	285	302
Subsidies from the structural funds and cohesion funds	176	237	258
Custom duties and other levies	38	46	47
Other revenue ¹	42	37	31
Off-budget finances			
Intervention Fund of Agriculture	38	10	5
Development Fund of Agriculture and Forestry	22	34	30
TOTAL	1,149	1,208	1,224
Customs duties, agricultural payments and sugar payments collected on behalf of EU	137	139	166

¹ Includes e.g. solidarity and management of immigration streams (2012: EUR 12.2 million) and EU 'TEN' revenue (2012: EUR 7.2 million)

Local government finances will weaken in 2012

Municipalities provide for their inhabitants basic public services, of which the most important relate to education as well as to social welfare and health care. These services are funded mainly by local government tax revenue, consisting of municipal taxes, property taxes and a share of corporate income tax. Total local government tax revenue is estimated to be around EUR 19.3 billion in 2012, which is a little less than 1% more than the estimate for 2011.

Tax criteria changes included in the Budget will reduce local government tax revenue by EUR 367 million but, in accordance with the Government Programme, municipalities will be fully compensated for this: the reduction of the corporate income tax rate will be compensated for by increasing the municipalities' share of corporate income tax revenue, and other changes compensated for via the system of central government transfers to local government. The temporary increase by 10 percentage points in the apportionment of corporate income tax will end in 2011, but the increase will be continued, albeit one half smaller, in 2012 and 2013.

Central government transfers to municipalities to finance basic public services will total EUR 10.5 billion in 2012, which is around EUR 340 million more than in 2011. Central government transfers to local government are determined mainly on an imputed basis. In municipal revenue this aid is universal, namely the municipalities can use their discretion in allocating the funds.

Central government transfers to local government will be reduced in accordance with the Government Programme by a EUR 631 million cut in transfers for basic public services as well as savings directed at, among other things, educational institution establishment costs and liberal adult education. Central government transfers will be increased, on the other hand, by an adjustment to the division of costs (EUR 412 million), compensation for tax losses (EUR 299 million) and by increases for developing education quality, implementing the social guarantee for young people, employment support and immigrant compensation. In addition, central government transfers to municipalities and joint municipal authorities will be increased by index adjustments (EUR 341 million) and by changes in age structure and population size (EUR 68 million).

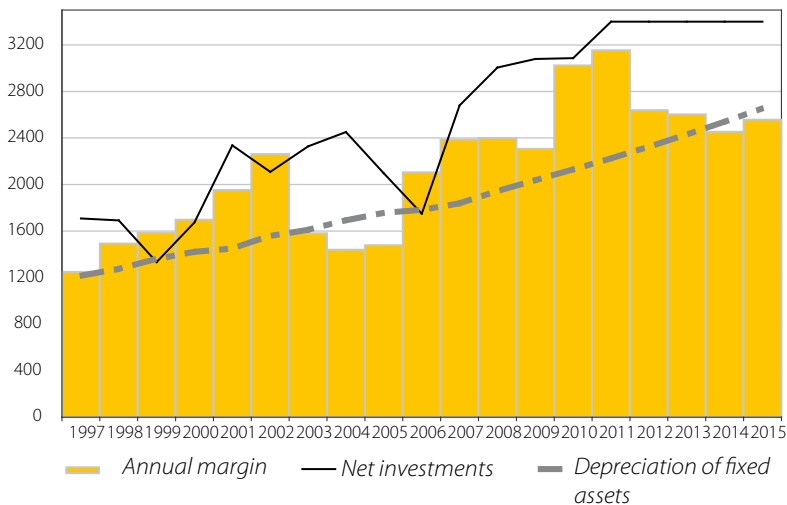
The financial balance of local government's tasks and obligations is examined in the Basic Public Services Programme and its related annual Basic Public Services Budget, which are part of the central government spending limits and budget procedure. The measures included in the Budget are expected to weaken the overall financial position of local government by a net amount of EUR 512 million compared with 2011.

The development of local government finances in 2010 was more positive than

anticipated, mainly due to faster than expected growth of local government tax revenue. In 2011 local government tax revenue is expected to continue to develop favourably and the annual margin is again expected improve slightly, clearly covering depreciation of fixed assets. Despite good development, the municipalities' loan portfolio will grow, because net investment is expected to remain at a high level.

In 2012 local government finances are expected to weaken. Growth of local government tax revenue will be lower due to the tax policy outlines of the Government Programme and a slowing of growth of tax bases. Local government expenditure pressures are great, and investment is also expected to remain on a high level in 2012. In the next few years, the annual margin is expected to remain clearly lower than net investment, which would mean a continuation of debt accumulation in local government finances and pressure to increase municipal income tax rates. Securing the stability of local government finances and implementing necessary investment without continuous growth in debt will require growth of operating expenditure to remain within the limits set by revenue performance. Controlling growth of wage expenditure and implementing measures to improve productivity will be of key significance.

Annual margin, depreciation and net investments of municipalities and joint municipal authorities, EUR million



Other selections from the 2012 Budget

- The 2012 Budget implements joint expenditure savings affecting all administrative branches in accordance with the Government Programme: savings in operating expenses throughout central government and revamping of operating models in central government (– EUR 60 million), promoting joint procurement (– EUR 55 million) and reducing subsidies to organisations and membership fees (– EUR 10 million). Savings in operating expenses have been allocated in the same proportion to all administrative branches and they amount to approximately 1% of operating expenditure. The allocation of procurement expenditure savings is based on Hansel Oy information pertaining to the use and potential of agency-specific framework agreements. Savings directed at subsidies to organisations and membership fees consist of approximately 16% of the total expenditure in question.
- As part of the Government Programme's expenditure savings, remuneration to Government ministers will be cut by 5%. The number of ministers in the new government fell from 20 to 19, but the number of special advisers rose from 32 to 35.
- A total of EUR 6 million is allocated to neighbouring-area cooperation, taking into account a EUR 8.5 million saving in line with the Government Programme and a EUR 1.5 million transfer to the Radiation and Nuclear Safety Authority. The primary focus of neighbouring-area cooperation is the Russian Federation Northwest Region.
- A total of EUR 1.1 billion is allocated to international development cooperation. The level of development cooperation appropriations is expected to be 0.56% of GNI and to therefore exceed Finland's international commitments. A total of EUR 884 million is allocated to the actual development cooperation item appropriation of the main title of the Ministry for Foreign Affairs, which is around EUR 40 million more than in 2011.
- Employment of young, unemployed and newly-graduated police will be supported by a supplementary appropriation of EUR 5 million in 2012 as part of the social guarantee for young people.
- The Border Guard will continue the procurement of a total of 23 patrol boats, to which EUR 4 million is allocated for 2012, as well as the renewal of four twin-engine helicopters, to which EUR 22 million is allocated. Funding from the European Union's External Borders Fund has or is being sought for both of these projects.
- A total of around EUR 83 million is allocated to the cost of immigration administration, the reception of asylum seekers and the migration training of return

migrants. Owing to a fall in the number of asylum seekers, reception expenditure is expected to decline by around EUR 22 million compared with the spring 2011 decision on spending limits. In accordance with the Government Programme, immigration policy will be made more efficient, and a EUR 5 million saving is allocated to this in 2012. On the other hand, EUR 2.7 million is allocated to reducing the application backlog in the Finnish Immigration Service.

- In 2012 a reduction of EUR 49 million, including the share of joint central government savings, is to be made in the administrative branch of the Ministry of Defence. Furthermore, due to delivery delays, payment appropriations in procurement authorities worth EUR 49 million has been transferred from 2011 to 2012.
- The introduction of the central government's five joint information system and basic information technology services will be accelerated and supported with EUR 4.7 million, with the aim of achieving in future years savings with the aid of lower production costs and new working methods. The development of the Finnish Board of Customs' IT solutions for EU electronic customs clearance will be supported with an administrative branch productivity appropriation of EUR 4.2 million.
- Pensions and compensation paid by central government will grow by around EUR 210 million compared with the ordinary 2011 Budget. This growth is explained mainly by index adjustments and strong growth in new pensions compared with previous years.
- The quality of preschool and basic education, upper secondary education, morning and afternoon activities, and basic education in art will be improved. The measures include the reduction of group sizes in basic education, the consolidation of extra-curricular activities and the enhancement of student care. A total of EUR 10 million in additional funding is allocated to development measures in 2012.
- The provision of additional vocational training in the form of apprenticeships will be reduced by around 600 students and additional vocation education in colleges by 350 students when the temporary increases decided earlier come to an end.
- The central government transfer funding received by voluntary adult education establishments will be cut by EUR 11.5 million.
- The cost of the rise in the university index within the university funding system would be EUR 56 million in 2012 but, in accordance with the Government Programme, university funding will be cut in 2012 such that only half of the index increase will be implemented. In addition, university funding will be reduced by a total of EUR 30 million by cutting additional funding decided earlier

for Aalto University and other universities. Provision has been made, however, for the compensation in full of the universities' employer's unemployment insurance contributions from 2012.

- Of the saving agreed in the Government Programme for universities of applied sciences, which will rise to a total of EUR 51 million in 2015, EUR 2 million will be implemented in 2012.
- With respect to discretionary government transfers to the operating costs of theatres and orchestras and to museums, a EUR 5 million saving is directed at both. In addition to the joint expenditure savings applied to all administrative branches, a EUR 3 million saving is directed at the operating expenses of the National Board of Antiquities.
- Of the revenue of Veikkaus Oy, the Slot Machine Association (RAY) and Fintoto, a total of EUR 913 million will be transferred to the budget, i.e. EUR 14.4 million more than in 2011. This will be used for promoting science, art, youth work, sport, exercise, health and wellbeing, and horse farming.
- Appropriations for agriculture will be reduced by around EUR 89 million net compared with the ordinary 2011 Budget, as a result, among other things, of savings outlined in the Government Programme as well as due to the fact that a transfer made in the Budget to the Agricultural Development Fund will not be implemented.
- A total of EUR 62.2 million is earmarked for Kemera support, whereas the corresponding figure in the ordinary 2011 Budget was EUR 76 million; in addition to this, the third supplementary budget of 2011 transferred EUR 3.8 million to Kemera support and the appropriation was increased by EUR 2.5 million. A total of EUR 7.3 million is allocated to energy aid for small-diameter wood, but because items transferred from 2011 will amount to EUR 9.8 million, the total aid available in 2012 will be around EUR 17 million.
- Under the maintitle of the administrative branch of the Ministry of Agriculture and Forestry total of EUR 8.3 million is allocated to METSO funding, which is EUR 3 million less than in the 2011 Budget. Expenditure for the support of water reserve use and management as well as the water supply will be cut by EUR 4 million.
- A total of EUR 1,012 million is allocated to expenditure on basic transport infrastructure, of which the share of appropriation funding is EUR 933 million. In basic transport infrastructure management, special emphasis will be given, in accordance with the Government Programme, to rail transport, by allocating to it EUR 20 million of additional funding in 2012. A total of around EUR 552 million will be spent on transport infrastructure maintenance to safeguard everyday travel.

- EUR 13 million is allocated to central government aid for private roads, which is EUR 10 million less than in the ordinary 2011 Budget.
- A total of EUR 601 million will be spent on transport infrastructure development investments. New projects to be initiated in 2012 include the Main Road 12 Tampere lakeside route, the Turku harbour link (Suikkilantie) and the E18 Koskenkylä–Kotka special project. In addition, the central government will contribute to the construction costs of the Western Metro.
- Through savings according to the Government Programme in business subsidies and renewable energy subsidies as well as in operating expenses and procurement spending affecting all administrative branches, the appropriations of the administrative branch of the Ministry of Employment and the Economy will be reduced in total by about EUR 80 million.
- The main R&D expenditure of the various main titles will fall to a total of around EUR 1.91 billion, which is around EUR 61 million less than in 2011. The public R&D funding-to-GDP ratio will be an estimated 1%, which is an internationally high level.
- A total of EUR 485 million is allocated to employment, training and special measures. Compared with the ordinary 2011 budget, however, the appropriations will be lower by EUR 50 million, due to falling unemployment. In 2012 an average of 18,800 people are expected to be within the sphere of labour market training and an average of 28,400 people employed with the aid of employment appropriations. In 2012 the activation rate is expected to be around 26.5%.
- The temporary refinancing model introduced to safeguard export funding and administered by Finland Export Credit Ltd ended in June 2011. There are plans to introduce a new export refinancing mechanism as a credit facility for Finnvera plc. A loan authorisation of EUR 200 million will be granted for Finnvera's own capital asset acquisition whereby the State may grant Finnvera short-term loans in situations where Finnvera is unable to acquire assets on the markets.
- A EUR 99 million increase compared with the ordinary 2011 Budget is allocated to energy policy appropriations. A funding authorisation of EUR 95 million is allocated to energy subsidies, of which EUR 50 million will be allocated to transport biofuel demonstration plants. A total of EUR 98 million is allocated to renewable energy production subsidies.
- To standardise the pension system, steps will be taken to ensure that individuals within the sphere of the extended unemployment benefit can receive the guaranteed pension at the age of 62 years without a reduction for early retirement. Individuals retiring on employment and national pensions already have a corresponding right. The change will increase expenditure on the guaranteed pension by EUR 0.2 million.

- State financing for flying doctors and air ambulance services will amount to around EUR 22 million, designed to ensure the services can continue to operate to the planned magnitude.
- The implementation of the Forest Biodiversity Programme for Southern Finland (METSÖ) 2008–2016 as well as the implementation of the Natura 2000 network and nature protection programmes decided earlier will continue. A total appropriation of EUR 50.8 million as well as a contract and commitment authorisation of EUR 10 million is allocated to these in the Budget. The appropriation includes a EUR 15 million increase in accordance with the Government Programme.
- The management of Metsähallitus nature heritage service areas and recreational resources will be strengthened by EUR 2 million, and a total of EUR 27.8 million in funding allocated to Metsähallitus public administration tasks implemented under the supervision of the Ministry of the Environment. In addition, Metsähallitus public administration tasks will be funded from the administrative branch of the Ministry of Agriculture and Forestry.
- Measures to improve the state of the Baltic Sea will be continued in the form of international and national cooperation between various administrative branches. The objective is a high level of effectiveness and cost-efficiency in protection measures. A coordination group will be established for Baltic Sea policy. Domestic measures to improve the Baltic Sea and inland waters will focus on reducing agriculture's nutrient loading of the waterways and enhancing waste water treatment. The funding basis of protection will also be reinforced.
- A total of EUR 1,025 million is allocated to interest-subsidy loan authorisations for state-subsidised housing production and EUR 250 million for credit guarantee loan authorisations. Interest-subsidy loan authorisations will rise from the 2011 level of EUR 975 million. Most of the housing production will be directed at the largest growth centres. EUR 110 million is granted in investment grants to support the construction and repair of housing for groups with special needs who are in the socially weakest position. The construction of social rented housing aimed at groups other than those with special needs will be encouraged by halving the interest contribution payable on interest-subsidy loans in the period 2012–2014.
- A total of EUR 70.5 million is allocated to housing repair and energy grants, of which EUR 15 million consists of the payment of grants made on a cyclical basis. The level of grants will be lowered by a total of EUR 35 million in savings, as outlined in the Government Programme.

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